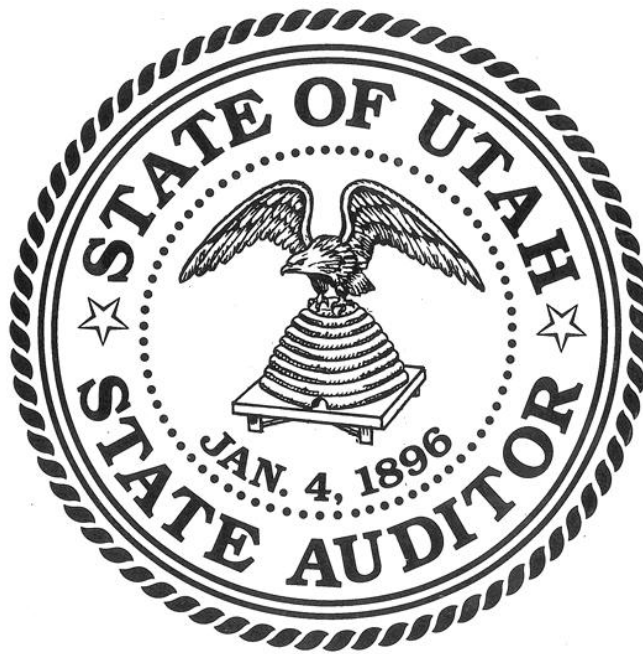


DEPARTMENT OF VETERANS' AND MILITARY AFFAIRS

Single Audit Management Letter
For the Year Ended June 30, 2013

Report No. 13-06



**OFFICE OF THE
UTAH STATE AUDITOR**

DEPARTMENT OF VETERANS' AND MILITARY AFFAIRS

Single Audit Management Letter
For the Year Ended June 30, 2013

Report No. 13-06

AUDIT TEAM:

Jon T. Johnson, CPA, Audit Director
Nancy Watson, CPA, Audit Supervisor



OFFICE OF THE
UTAH STATE AUDITOR

SINGLE AUDIT MANAGEMENT LETTER NO. 13-06

October 3, 2013

Gary Harter, Executive Director
Department of Veterans' and Military Affairs
P.O. Box 58897
550 Foothill Dr., #202
Salt Lake City, Utah 84158-0897

Dear Mr. Harter:

This management letter is issued as a result of the Department of Veterans' and Military Affairs' (the Department's) portion of the statewide federal compliance audit for the year ended June 30, 2013. Our report on the statewide federal compliance audit for the year ended June 30, 2013 is issued under separate cover. The federal programs tested as major programs at the Department were the Grants to States for Construction of State Home Facilities and the Veterans' State Nursing Home Care Program.

In planning and performing our audit of the federal programs listed above, we considered the Department's compliance with the applicable types of compliance requirements as described in the OMB Circular A-133 Compliance Supplement for the year ended June 30, 2013. We also considered the Department's internal control over compliance with the requirements previously described that could have a direct and material effect on the federal programs in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over compliance.

Our consideration of internal control over compliance was for the limited purposes described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or to detect and correct on a timely basis noncompliance with a type of compliance requirement of a federal program. A material weakness over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely

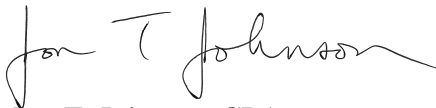
basis. We identified certain deficiencies in internal control that we consider to be material weaknesses. These material weaknesses are identified in the accompanying table of contents and are described in the accompanying schedule of findings and recommendations.

The Department's written responses to the findings identified in our audit have not been subjected to the audit procedures applied in our audit and, accordingly, we express no opinion on them.

The purpose of this communication is solely to describe the scope of our testing of internal control over compliance and the results of that testing. This communication is an integral part of an audit performed in accordance with OMB Circular A-133 in considering the Department's internal control over compliance. Accordingly, this communication is not suitable for any other purpose.

We appreciate the courtesy and assistance extended to us by the personnel of the Department during the course of our audit, and we look forward to a continuing professional relationship. If you have any questions, please contact me.

Sincerely,

A handwritten signature in cursive script that reads "Jon T. Johnson".

Jon T. Johnson, CPA

Audit Director

801-538-1359

jonjohnson@utah.gov

cc: Dennis N. McFall, Deputy Director
W. Todd Hansen, State Veterans' Nursing Home Officer

DEPARTMENT OF VETERANS' AND MILITARY AFFAIRS

FOR THE YEAR ENDED JUNE 30, 2013

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Finding Type:

MW Material Internal Control Weakness
RN Reportable Noncompliance or Illegal Acts

Applicable To:

f Federal Program

DEPARTMENT OF VETERANS' AND MILITARY AFFAIRS

FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2013

1. REIMBURSEMENT FOR CONSTRUCTION COSTS BASED ON ESTIMATES RATHER THAN ACTUAL COSTS

Federal Agency: **Department of Veterans' Affairs**

CFDA Number and Title: **64.005 Grants to States for Construction of State Home Facilities**

Federal Award Number: **FAI-49-004 and FAI-49-005**

Questioned Costs: **N/A**

Pass-through Entity: **N/A**

In our review of the requests for reimbursement for the construction costs of both the Ivins Veterans Nursing Home and the Payson Veterans Nursing Home as of March 31, 2013, we noted that the Utah Department of Veterans' and Military Affairs (the Department) reported cumulative costs to date that exceeded the actual costs incurred to date by \$2,261,269 for the Ivins Veterans Nursing Home and by \$1,418,448 for the Payson Veterans Nursing Home. This resulted in payments to the Department in excess of the 65% federal share of the construction costs in the amount of \$1,469,825 for the Ivins Nursing Home and \$921,991 for the Payson Nursing Home. Per federal regulations (31 CFR 205.33), the State must minimize the time between receipt of federal funds and their disbursement for federal program purposes. Per 38 CFR 59.100, Grants to States for Construction of State Home Facilities are to be paid to the State by way of reimbursement. As of June 30, 2013, the Department had completely expended these advanced funds on allowable construction expenditures and had not received any additional advances; therefore, no costs have been questioned.

This error occurred because the Department was not aware that the cost summary information provided by the construction project manager, used to prepare the requests for reimbursement, was based on estimates rather than on actual costs incurred. Errors like this result in noncompliance with the federal cash management requirements and may also result in questioned costs.

Recommendation:

We recommend that the Department prepare the requests for reimbursement using only actual expenditures recorded in FINET (the State's general ledger).

Department's Response:

All billings have been revised and corrected to conform to this recommendation. Revisions were completed by Todd Hansen.

Contact Person: Todd Hansen, State Officer, (801) 584-1914

Correction Date: August 22, 2013

DEPARTMENT OF VETERANS' AND MILITARY AFFAIRS

FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2013

2. VERIFICATION THAT CONTRACTORS WERE NOT SUSPENDED OR DEBARRED WAS NOT OBTAINED

Federal Agency: **Department of Veterans' Affairs**

CFDA Number and Title: **64.005 Grants to States for Construction of State Home Facilities**

Federal Award Number: **FAI-49-004 and FAI-49-005**

Questioned Costs: **N/A**

Pass-through Entity: **N/A**

For 4 of the 5 construction contracts equal to or exceeding \$25,000 for the Ivins Veterans Nursing Home and/or the Payson Veterans Nursing Home, the State Division of Facilities Construction and Management (DFCM) did not verify that the contractor was not suspended or debarred. The verification may be accomplished by 1) checking the Excluded Parties List maintained by the U.S. Government System for Award Management (www.sam.gov), 2) collecting a certification from the entity, or 3) adding a clause or conditions to the agreement with the entity. Federal regulations (2 CFR 180.220) prohibit non-federal entities from contracting for the expenditure of federal grant funds with entities that are suspended or debarred or whose principals are suspended or debarred if the contract is expected to equal or exceed \$25,000.

This error occurred because both the Department and DFCM assumed the other entity was responsible for ensuring compliance with the federal requirements of this grant. In reality, both entities share in the responsibility since the Department is the recipient of the grant and DFCM handles the construction of the projects. Therefore, the Department should implement internal controls to follow-up with DFCM to ensure the requirements have been met. Errors like these can result in potential questioned costs or loss of future grant funding. We did not question any costs associated with these errors because none of the four contractors noted above were on the federal Excluded Parties List.

Recommendation:

We recommend that the Department implement internal controls to follow-up with DFCM and ensure they have obtained verification from contractors of compliance with the federal suspension and debarment requirements for all covered transactions.

Department's Response:

The Department provided to the federal V A Office of State Home Programs, a signed Form 10-0388-7 entitled Compliance Regarding Debarment, Suspension and Other Responsibility Matters for Primary Covered Transactions. This was approved by the V A and accepted on 27 February 2012. We subsequently provided a signed Form 10-0388-12 entitled Certification Regarding Debarment, Suspension, Ineligibility and Voluntary Exclusion-Lower Tier covered Transactions (38 CFR Part 44-510). This was accepted and approved by the V A Office of State Home Programs on 01 March 2012. It was our understanding that

DEPARTMENT OF VETERANS' AND MILITARY AFFAIRS

FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2013

reporting was to be done and verified by DFCM, not by the Department of Veterans Affairs because the construction contract was under the jurisdiction and direction of DFCM. As a result the Department believed that it had discharged its responsibility relative to these documents and their related requirements. Effective immediately, as of the date of this letter, all future actions relative to this subject matter will be closely and carefully monitored with DFCM to assure that compliance is accomplished.

In the event any further (additional) grants are received (awarded) to the Department, the Department will place additional internal control procedures in place to assure consistent review of such requirements, i.e. verification that contractors were not suspended or debarred.

*Contact Persons: Dennis McFall, Deputy Director, (801) 326-2372 (O), (801-755-8722 (C)
Todd Hansen, State Officer, (801-584-1914*

Anticipated Correction Date: Immediately (August 22, 2013)

3. CERTIFIED PAYROLLS WERE NOT OBTAINED FROM CONTRACTORS TO COMPLY WITH FEDERAL DAVIS-BACON ACT

Federal Agency: **Department of Veterans' Affairs**

CFDA Number and Title: **64.005 Grants to States for Construction of State Home Facilities**

Federal Award Number: **FAI-49-004 and FAI-49-005**

Questioned Costs: **N/A**

Pass-through Entity: **N/A**

No certified weekly payrolls were submitted to DFCM for the construction of either the Ivins Veterans Nursing Home or the Payson Veterans Nursing Home. Per federal regulations (29 CFR section 5.5), contractors and subcontractors are required to submit to the non-federal entity weekly, for each week in which any contract work is performed, a copy of the payroll and a statement of compliance (certified payrolls).

This error occurred because both the Department and DFCM assumed the other entity was responsible for ensuring compliance with the federal requirements of this grant. In reality, both entities share in the responsibility since the Department is the recipient of the grant and DFCM handles the construction of the projects. Therefore, the Department should implement internal controls to follow-up with DFCM to ensure the requirements have been met. Errors like these can result in potential questioned costs or loss of future grant funding. We did not question any costs associated with this error because, subsequent to our inquiries, the weekly certified payrolls were submitted by the contractor and subcontractors for both construction projects.

DEPARTMENT OF VETERANS' AND MILITARY AFFAIRS

FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2013

Recommendation:

We recommend that the Department implement internal controls to follow-up with DFCM and ensure compliance with the federal Davis-Bacon Act related to the timely submission of certified payrolls.

Department's Response:

The Department submitted V A Form 10-0388-2 entitled Compliance with the Davis-Bacon Act, to the V A Office of State Home Programs. This was accepted and approved by the V A on 27 February 2012. Similar to the prior issue, we were of the understanding that DFCM would review payrolls submitted by the contractor and we would not need to do so. The contract for construction is with DFCM and we were of the understanding it was their responsibility to validate and assure compliance with Davis-Bacon requirements.

In the event any further (additional) grants are received (awarded) to the Department, the Department will place additional internal control procedures in place to assure that payrolls are reviewed and compliance is maintained with Davis-Bacon requirements.

*Contact Persons: Dennis McFall, Deputy Director, (801) 326-2372 (O), (801) 755-8722 (C)
Todd Hansen, State Officer, (801) 584-1914*

Anticipated Correction Date: Immediately (August 22, 2013)